



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

FILED

04/24/19
04:59 PM

Order Instituting Rulemaking to Implement
Public Utilities Code Section 451.2 Regarding
Criteria and Methodology for Wildfire Cost
Recovery Pursuant to Senate Bill 901 (2018).

Rulemaking 19-01-006
(Filed January 10, 2019)

**OPENING COMMENTS OF WILLIAM B. ABRAMS IN RESPONSE TO THE STAFF
PROPOSED STRESS TEST FRAMEWORK**

William B. Abrams
California Resident and Ratepayer
1519 Branch Owl Place
Santa Rosa, CA, 95409
(707) 397-5727

April 24, 2019

Email: end2endconsulting@gmail.com

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to
Implement Public Utilities Code Section
451.2 Regarding Criteria and
Methodology for Wildfire Cost Recovery
Pursuant to Senate Bill 901 (2018).

Rulemaking 19-01-006
(Filed January 10, 2019)

**OPENING COMMENTS OF WILLIAM B. ABRAMS IN RESPONSE TO THE STAFF
PROPOSED STRESS TEST FRAMEWORK**

William B. Abrams received party status via written ruling on April 11, 2019.

William B. Abrams respectfully submits these Opening Comments on the Staff Proposed Stress Test Framework, issued in this Rulemaking (R.) 19-01-006 (Criteria and Methodology for Wildfire Cost Recovery) filed on January 10, 2019. These Opening Comments are timely filed and served pursuant to the Commission's Rules of Practice and Procedure and the ruling filed by Judge Haga on April 12, 2019.

William B. Abrams appreciates the opportunity to participate in this important rulemaking proceeding.

Summary: Stress Test Methodology Limitations

I appreciate the thoughtful staff proposal which attempts to artificially prop up the Investor Owned Utilities (IOUs). It is not discussed in the staff proposed "stress test framework" but I assume these artificial supports are designed to keep credit ratings for the IOUs high enough for as long as it takes for them to mitigate the wildfire risks in their infrastructure and business practices. For sure, this is a noble cause but I am concerned

that the proposed methodology is fundamentally and foundationally flawed. Consider the following cautionary considerations as we evaluate this stress test methodology:

1. **Ineffectual** – Credit rating agencies first and foremost consider the environment where a company operates and the overall systemic health of the company. It is widely accepted that these IOUs don't have the business strength/integrity (processes, management tools, etc.) to adequately deal with these environmental factors (diversification of energy sourcing, changing customer-base, climate change factors, growing wildfire risks, etc.). Unless the Commission provides a regulatory framework (penalties and incentives) to ensure the IOUs become financially sound through systematically and systemically addressing these internal structural shortcomings and external environmental conditions, credit rating agencies will not be tempted to provide investor-grade credit ratings for IOUs.
2. **Customer Profile** – Any financial framework that does not adequately define the customer impacts will miss the mark. To illustrate this point, please consider that the follow two metrics were not considered in the proposed stress test framework:

Average Revenue Per User (ARPU) – This is important to understand the relative revenue contribution of customers over time. Energy efficiency programs, alternative energy sources and other factors have contributed to changes in how much revenue an IOU can reasonably expect to receive from each customer given the current way customers are billed for services.

Price Elasticity – In competitive environments there is usually an inverse relationship between price and the responsiveness of demand or supply. There is no proxy for this anywhere in this framework and it assumes inelasticity (rates increase and customers remain constant). This of course

is traditionally the case for an IOU but recent wildfire events have introduced different factors with residents leaving the service area (safety and affordability factors) and/or more residents switching to alternative energy sources (off the grid) when rebuilding after wildfires. By putting the costs of these 2017 IOU caused wildfires on the backs of ratepayers, we run the risk of pricing folks out of the market. This is particularly true for low-income residents and vulnerable populations.

3. **Regulatory Bailout** – The proposed framework equates to a regulatory safety valve that disincentivizes IOU wildfire risk mitigation and financial health. The primary reason why IOUs did not do the system hardening and necessary overhaul of their business processes is because they had no financial incentive to do so. Simply put, they got paid by ratepayers no matter what short-term investor return target guided their business practices. This proposed methodology seems to provide them an additional reason not to act. If the stress test methodology remains as proposed, they have fewer incentives to roll up their sleeves and get real measurable wildfire risk mitigation done for their customers and their long-term investors.
4. **Customer Harm Threshold Misalignment** - The proposed stress test methodology wrongly equates “customer harm threshold” to the credit rating of the IOUs. There is a cause and effect relationship which is not recognized in the proposed framework. Customer harms caused by IOUs (A) negatively affect the financial health of the IOUs (B) which in turn produces a credit rating downgrade (C). Therefore, $A + B = C$ but $C \neq A$.

Unfortunately, the framework’s false equivalency of customer harm and IOU credit rating has the unhappy side-effect of harming ratepayers which undermines the spirit of Section 451 of the Public Utility Code. As a fire survivor, resident

and ratepayer, I find this particularly troublesome. Nowhere in the proposed stress test framework does it even articulate real customer harms. As my family and I were running for our lives through the flames and our home and community was burning down I didn't really contemplate the credit rating of the IOU. Even after the fires, I would never equate IOU credit rating with customer harm. Yes, if the IOUs do not have credit and access to capital, we will have a more harmful environment for customers. However, if the fires of 2017 shock Utilities into URGENT action and we have a framework for real reform and wildfire mitigation that comes from it, that would be a good step forward.

Given these fundamental problems with the proposed framework, we must ensure that any methodology for cost recovery is tied to transparent and measurable improvements to how the Utilities provide safe and reliable energy service. ONLY, in this way can we support the investment grade credit rating of the IOUs, inform regulatory/legislative action, and most importantly improve the safety and security for our residents. Given these objections, I will use the rest of this document to articulate recommendations to tie wildfire risk mitigation to the stress test methodology. It is very important that this methodology established for 2017 costs is a solid baseline approach for how we will deal with IOU caused wildfires going forward and as described in Section 451.1 of the California Public Utilities Code.

Overview: Recommended Improvements to Stress Test Methodology

If this stress test methodology is not abandoned and replaced with tools that support the long-term health and safety of our energy grid, I propose that the stress test methodology be modified in the following ways to ensure focus on the long-term safety of our residents, CPUC oversight objectives and the financial stability of our Utilities:

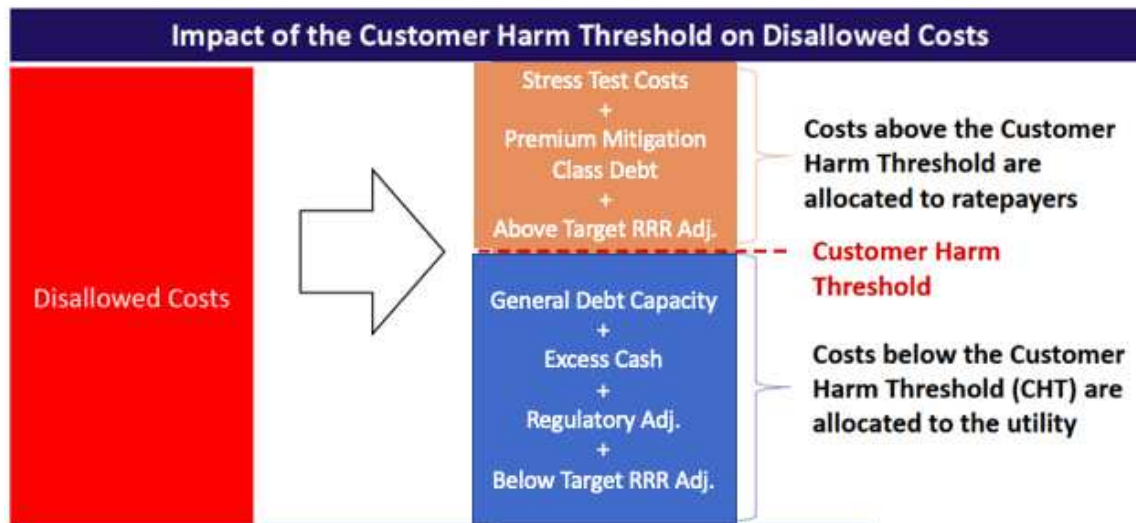


Figure A: Revised Stress Test Framework

Wildfire Risk Reduction Adjustment

It will be important for the Commission to incentivize measured and independently verified wildfire risk mitigation into any stress test methodology. As discussed earlier, above all else the credit agencies look at the systemic business practices of a company and the environment in which they operate as the primary drivers of credit rating. Therefore, it will be important to infuse measurable risk mitigation incentives into this framework that demonstrate the capacity of the IOUs to effectively manage the growing wildfire risks. This is in keeping with the direction articulated in the Governor's Strike Force Report issued on April 12, 2019.

When the next IOU caused wildfire event happens, the CPUC should determine if the Utility exceeded regulatory standards for risk mitigation or underperformed. In this way there can be a relative risk reduction (RRR) adjustment applied to the stress test methodology. As an example, if the Utility had a 10% wildfire risk reduction target in the year preceding the event and the Utility actually achieved 12% wildfire risk reduction then a 20% bonus adjustment could be applied above the Customer Harm Threshold

(CHT) and charged to ratepayers. Similarly, if the Utility achieved only 8% with the same 10% target, they would get a 20% penalty below the CHT.

Now, if this type of adjustment is applied, it will be important to ensure that the equation represents an aggregate of all of the independently verifiable risk mitigation measures. Consider the following example as the type of methodology that could be applied for developing these metrics:

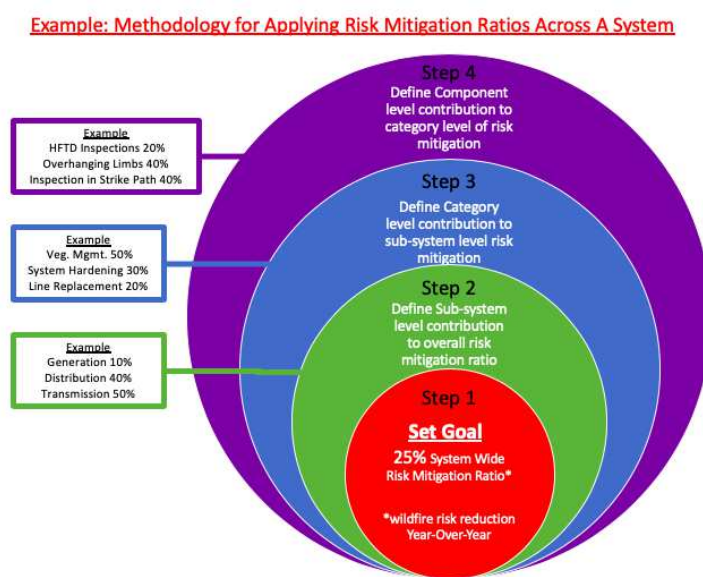


Figure B: Applying Risk Mitigation Ratios to a Risk Reduction Adjustment

If these types of quality controls are identified, standardized and independently measured, we can then apply this to cost recovery and the staff proposed stress test methodology. This will then enable the CPUC to tie actual risk mitigation metrics to performance outcomes. Following, performance outcomes can then be tied to ratepayer reimbursement and this stress test methodology to ensure the financial incentives necessary to drive accountability. This direction is very much in keeping with the directive to provide “safe and reliable service” and the prudent manager standard. If utilities are not mitigating wildfire risk then the services are not safe, not reliable and not reasonable so should not be reimbursed for those system improvements. Additionally, if

an IOU embraces these mitigation measurements as an ingrained part of their DNA, they will be rewarded with an upgraded credit rating by credit agencies. In this way, different thresholds can be set that provide financial incentives and financial penalties and support the long-term financial health of IOUs. In my filing for rulemaking R.18.10.007, I provide an overview of scorecards and other tools that can be leveraged to ensure transparency and accountability towards these types of risk mitigation targets.

Yes, the IOUs through the submittal of their Financial Risk Avoidance Plans (WMPs) have tried to avoid performance-based metrics from being monitored by the CPUC but this should not dissuade the Commission from incorporating these standards into this framework. I encourage the Commission to ensure the baseline Wildfire Mitigation Plans (WMPs) that come out of that rulemaking are reflected in this cost recovery framework. The guidance provided by the Governor's Strike Force report on page 11-12 can help support these objectives.

Premium Mitigation Classification of Debt

So, the use of incremental debt capacity to determine the "Customer Harm Threshold" is misplaced. In no other industry would we would link these for regulatory or oversight purposes. I owned a restaurant before the fires of October 2017 and had regular inspections by the health department. Oddly, at no time did I get a question from that health inspector about the maximum amount of debt I could take on to ensure the health and safety of my customers. Regardless of my debt or Debt to Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) I was still responsible for maintaining the same "customer harm threshold" namely to provide safe and reliable food.

Similarly, if despite passing the health department inspections, I got my customers sick from food poisoning and they suffered physical and financial harm, I would rightly be held liable. The Judge in this case would not make me less financially liable to ensure I

had good a credit rating. Yes, a good credit rating would be vital to me getting a future small business loan to improve my services but that would not be a factor in the Judge's determination. It should also not be a factor here for the IOUs.

Continuing with this restaurant analogy, if the lawsuits and liability made me reorganize my restaurant practices with additional food safety quality controls that would be a good thing for my future customers and the financial viability of my business. So, if I wanted a new small business loan and could demonstrate to the financial institutions I ingrained heightened food safety practices into my business, I might still get that loan despite my past failings. Through this cost recovery rulemaking, let's not let the IOUs feed us poor-mouth excuses that lead us to disincentivize the real reform we all need.

Now, the only way the Commission should even consider this maximum incremental debt capacity is to look at a way to modify or exempt a group of investments or expenditures that fall within a "premium fire mitigation" category. ONLY premium mitigation tactics (new safety innovations, heightened quality controls) that go above and beyond baseline safety and mitigation standards should be considered for this category so that IOUs can have a mechanism to avoid some incremental wildfire related debt. In this way, perhaps they could maintain a 20% premium when calculating remaining debt capacity, thereby reducing the amount of incremental capacity. If the Commission was to consider this approach, an in-depth analysis by all parties would be required to identify the thresholds and standards involved.

The objective here is to provide another tool in the CPUC regulatory toolbox that can promote wildfire risk mitigation on the way to increase the financial health of our IOUs. If we disassociate this stress test methodology from wildfire risk mitigation, we will by default incentivize poor management and quality assurance practices going forward. I urge the Commission to not let this occur.

Conclusion

This stress test methodology must take into consideration the real “customer harm threshold” produced by IOU systematic disregard of wildfire risk mitigation for the sake of short-term investor and Executive gains. Any cost recovery methodology applied to the 2017 wildfires, must keep in mind how it will impact the safety and resiliency of ratepayers going forward. The determination made in this rulemaking must inform California Public Utility Code 451.1 and form a baseline for how we will look at cost recovery and the customer harm threshold going forward.

If we don’t look to the future with this methodology, we will send the wrong signals to the rating agencies, the IOUs and all stakeholders. Methodologies that equate to bailouts on the backs of ratepayers send the wrong message and more importantly inform the wrong actions on the part of our IOUs. Utilities should earn their credit rating. They need to demonstrate how they incorporate sound and systemic business practices and mitigate risks. Yes, the CPUC and citizens of the State of California must support them on this road to financial health. The CPUC must provide a cost recovery framework that has the right incentives for wildfire mitigation.

I urge the Commission to keep the real customer harms front and center in their deliberations. Behind every financial equation in this methodology, there are real safety consequences for the residents of the State of California. Please, charge me double or triple as a ratepayer if it means my kids will not have to run from another IOU caused wildfire again. However, don’t provide an easy-out to IOUs that doesn’t get across the URGENCY that is needed around these issues. We need to build-in incentives for IOUs to do the right things for their long-term financial health and ours as citizens. If we don’t do that in this rulemaking, we will by default disincentivize them from mitigating wildfire risks. Now is the time to set these standards.

Dated:

April 24, 2019

Respectfully Submitted,

/s/ William B. Abrams

California Resident

1519 Branch Owl Place

Santa Rosa, CA, 95409

Tel: (707) 397-5727

E-mail: end2endconsulting@gmail.com